LAW OFFICES
KOTEEN & NAFTALIN, L.L.P.
1150 CONNECTICUT AVENUE
WASHINGTON, D.C. 20036

BERNARD KOTEEN*
ALAN Y. NAFTALIN
ARTHUR B. GOODKIND
GEORGE Y. WHEELER
MARGOT SMILEY HUMPHREY
PETER M. CONNOLLY
M. ANNE SWANSON
CHARLES R. NAFTALIN
GREGORY C. STAPLE
R. EDWARD PRICE

* SENIOR COUNSEL

TELEPHONE
(202) 467-5700
TELECOPY
(202) 467-5915

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

March 31, 1997

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Hand Delivered

Re: Reply Comments of Telstra Corporation Limited
IB Docket No. 96-261

Dear Mr. Caton:

Transmitted herewith, on behalf of Telstra Corporation Limited, are an original and nine copies of its Reply Comments in the above-referenced matter. Due to time constraints and the recent holiday, John Stanton of Telstra, whose name appears at the end of these Reply Comments, was unable to sign them. I have therefore signed my name, and an original signature page will be filed with the Commission at a later date.

If you have any questions concerning these Reply Comments, please contact Gregory C. Staple or me.

Very truly yours,

R. Edward Price

Enclosures

cc (w/encl) by hand delivery:
Kathryn O'Brien
International Transcription Service

# ORIGINAL

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OFFICE OF SECRETARY

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| In the Matter of | ) | |
| | ) | |
| International Settlement Rates | ) | IB Docket No. 96-261 |

**REPLY COMMENTS**

These comments are submitted by Telstra Corporation Limited ACN 051 775 556 (Telstra), Australia's leading domestic and overseas carrier, as "second round" comments in response to the FCC's December 19, 1996 Notice of Proposed Rulemaking, FCC 96-484, (hereafter NPRM) in the above-captioned proceeding. and follow Telstra's "first round" comments, submitted to the FCC on February 4, 1997.

**Summary**

The FCC's NPRM generated first round comments from a large number of carriers and administrations from around the globe. Many of these submissions echoed the basic concerns outlined in Telstra's first round comments. That is, that the FCC's initiative on international settlement rates may be well-intentioned and its underlying objectives -- to reduce international settlement costs and thereby benefit consumers -- may be widely supported, but that the NPRM is too narrowly focused and tends to ignore many of the new and powerful dynamics of the international communications services markets.

Telstra believes that the FCC's principle goal of establishing more cost based settlement rates is most likely to be achieved if any order in this docket is perceived to be and

is in fact part of a more general, balanced approach to price reform for international communication services. To that end, the FCC should expressly link any new settlement benchmarks with the following:

(i) An FCC commitment to monitor U.S. collection rates for international message telephone service;

(ii) An FCC commitment to establish cost based interconnection rates for all international services, including Internet services;

(iii) An FCC investigation of the current tariff and facilities arrangements under which foreign Internet service providers (ISPs) may access U.S. Internet backbone networks, inasmuch as the current arrangements provide substantial subsidies from foreign Internet users to U.S. carriers;

(iv) A recognition of the bilateral nature of existing accounting rate arrangements, and of the liberalising gains achieved under the recent WTO agreement;

(v) A renewed commitment to reform the international accounting rate regime through participation in multilateral organisations, notably the International Telecommunications Union (ITU) in which Telstra notes the U.S. government has traditionally taken a leading role; and

(vi) An acknowledgment that the marketing practices of U.S. international carriers (through non-traditional services, such as call turn-around and traffic "refile") are significant contributors to recent increases in the outward traffic imbalance on many U.S. streams.

In Telstra's view, the adoption of such a linked or "package" approach by the FCC will increase the prospects of gaining more widespread support for the goals of the NPRM.

Telstra reiterates that it supports the underlying thrust of the NPRM -- i.e., to reduce international settlement rates. Like the major U.S. international carriers, Telstra is a net outpayer of settlements.

**1. U.S. Collection Rates**

The concerns raised by Telstra in its February 4 comments, regarding the failure of U.S. carriers to reduce their collection rates in line with continuing reductions in the underlying settlement rates, were also reflected in a number of comments in response to the NPRM.

If U.S. collection rates were reduced this would have two potential effects. First, it would obviously reduce the cost of international communications for U.S. consumers, which is one of the FCC's stated principal objectives in the NPRM. Second, because high collection rates act to reduce the growth of traffic on a given stream, the lower collection rates would stimulate traffic. This traffic growth would be welcomed by other countries and would make it easier for them to accept further reductions in settlement rates -- which is the FCC's other main objective in the NPRM.

In its February 4 comments Telstra suggested that the FCC amend its rules to require that all U.S. carriers advise the FCC annually, in arrears, of their average tariffed rate for international message telephone service on 31 July and 31 December for the top 50 routes on which U.S. carriers have significant settlement deficits. Telstra continues to see this suggestion as worthwhile, and as one possible means of broadening the international support for the NPRM. In this regard, Telstra notes that in spite of AT&T's assertion that settlement rate reductions are passed on to its customers, AT&T's standard rates to Australia have risen twice since 1993, while the settlement rate has dropped by 44%.

### 2. International Capacity for Internet

Telstra's February 4 comments explained the inequitable situation in which U.S. carriers presently require that their correspondent carriers pay for the cost of both the international half circuits -- i.e., 100% of the cost of the link -- required for international capacity to the U.S. to support international Internet traffic.

Telstra remains concerned that this situation means that non-U.S. carriers are subsidising their U.S. counterparts to the extent that this capacity is used by U.S. Internet users to download content and information from Internet sites outside the U.S. -- a growing trend as the Internet becomes more global in nature. Telstra estimates that this subsidy to the U.S. amounts to approximately U.S. $10 million per annum in respect of the Australian stream, or around U.S. $200 million globally, and is trebling every year based on present growth rates.

Although these concerns were reflected in few of the "first round" comments by other parties, this issue will become of more widespread concern to carriers around the world as the amount of international capacity required for Internet continues to grow, and as a proportion of voice traffic and other "traditional" PSTN service increasingly migrates onto the Internet.

In view of the foregoing, Telstra urges the FCC expressly to commit the agency to investigate and, as necessary, reform the terms and conditions on which international facilities, including IPLs, are furnished to correspondent carriers. Because these issues affect the viability and expansion of the global Internet, Telstra is also filing a copy of these comments, as well as its first round comments, in the FCC's recently announced docket to review future regulation of the Internet, CC Docket No. 96-263.

### 3. Multilateral Approach

As the FCC acknowledges, the ITU -- a multilateral organisation in which the United States has traditionally played a leading role -- has agreed that accounting rate reform is needed. Indeed, the ITU's Recommendation D.140 has called for countries to adopt cost-based accounting rates similar to those proposed in the Commission's NPRM. But in spite of the FCC's claim to support the work of such international fora, one fairly consistent theme in the first round of comments is the concern that the FCC's unilateral action on settlement rates can be interpreted as an attempt to supplant the role of the ITU. While Telstra acknowledges that the rate of progress achieved by carriers through the ITU forum may be open to criticism, it would nonetheless be useful for the FCC to underline its intention to continue working with the ITU on these issues. The U.S. would thus continue in its traditional position of leadership in the ITU and not forego its important role in shaping a multilateral approach to resolving the accounting rate issue at this crucial time.

### 4. Impact of Non-Traditional Services

Another common criticism of the NPRM in the "first round" comments was the fact that the increase in the outbound traffic ratio from the U.S. in recent years is partly due to the marketing practices of U.S. carriers, through such non-traditional services as home country direct, call turn-around (call-back) and reorigination (refile).

Telstra believes it would be useful for the FCC to focus less strongly on the volume of net outbound settlements from the U.S. The above-mentioned services mean that an increase in net outbound settlements does not necessarily amount to an increase in net economic outflow, because the U.S. carriers are earning revenues on the non-traditional services. Moreover, the absolute balance of traffic is, in theory, irrelevant to the FCC's principle concern -- i.e., whether the settlement rates at each end of an international circuit are reasonably cost based.

**5. Conclusion**

These comments, like those previously submitted by Telstra, are intended to be a positive contribution to the process of reforming international settlement arrangements. Telstra believes that a holistic reform package including the elements described in this document can build on the objectives in the NPRM and offer the potential for a more positive response by key industry players around the world.

Respectfully submitted,

for

John Stanton
Regional Director, Americas and
Satellite Arrangements
Telstra Corporation Limited
231 Elizabeth Street
Sydney, NSW, 2001
Australia

March 31, 1997

## CERTIFICATE OF SERVICE

I, Barbara Frank, a secretary in the law firm of Koteen & Naftalin, L.L.P. do hereby certify that copies of the foregoing "REPLY COMMENTS" were mailed first-class U.S. Mail, postage prepaid, this 31st day of March 1996 to the following:

W.J. Henderson
Embassy of Australia
1601 Massachusetts Avenue, N.W.
Washington, D.C. 20036

Atna Ram
Pacific Island Telecommunications
Association
P.O. Box 2027
Government Buildings
Suva, Fiji

Bruce A. Olcott
R. Michael Senkowski
Wiley Rein & Fielding
1776 K Street, N.W.
Washington, D.C. 20006

Samuel A. Martin
Telecommunications Services of
Trinidad and Tobago Limited
P.O. Box 917
54 Frederick Street
Port Frederick Street
Port of Spain
Trinidad, West Indies

Joseph S. Charter
Ministry of Works, Communications &
Public Utilities
Young Street
St. George's
Grenada, W.I.

Jose A. Cela
President
ACHIET
Box 70325
San Juan, PR 00936

V.B. Bajracharya
Nepal Telecommunications Corporation
Putali Bagaincha
Singhdurbar
Kathmandu, Nepal

Martin J. Lewin
Aitken Irvin Lewin Berlin
Vrooman & Cohn, L.L.P.
1709 N Street, N.W.
Washington, D.C. 20036

Leon T. Knauer
Wilkinson, Barker, Knauer & Quinn
1735 New York Avenue, N.W.
Washington, D.C. 20006-5209

James J.R. Talbot
AT&T Corp.
295 N. Maple Avenue
Room 3252H3
Basking Ridge, NJ 07920

Philip V. Permut
Aileen A. Pisciotta
Kelley Drye & Warren, L.L.P.
1200 19th Street, N.W.
Suite 500
Washington, D.C. 20036

Robert J. Aamoth
Kelley Drye & Warren, L.L.P.
1200 19th Street, N.W.
Suite 500
Washington, D.C. 20036

Hiroshi Shibata
Director, International Services
International Digital Communications
5-20-8, Asakusabashi
Taito-ku
Tokyo 111-61
Japan

Jonathan Jacob Nadler
James M. Fink
Thomas E. Skilton
Squire, Sanders & Dempsey, L.L.P.
1201 Pennsylvania Avenue, N.W.
Washington, D.C. 20044

Carlos Saravia Durnik
Superintendencia de Telecomunicaciones
Av. 16 de Julio N° 1800
(El Prado) Edif. Cosmos
6° piso
Casilla 6692, La Paz
Bolivia

Simeon L. Kintanar
Republic of the Philippines
Department of Transportation and Communications
National Telecommunications Commission
865 Vibal Bldg
EDSA Corner Times St.
Q.C., Philippines

Haji Hod Bin Parman
Director General
Jabatan Telekom Malaysia
Wisma Damansara
Jalan Semantan
50668 Kuala Lumpur
Malaysia

Errald Miller
President & CEO
Telecommunications of Jamaica
47 Half Way Tree Road
P.O. Box 21
Jamaica, W.I.

J. Robert Vastine
President
Coalition of Services Industries
805 15th Street, N.W.
Washington, D.C. 20005

Theodore W. Krauss
France Telecom North America
555 13th Street, N.W.
Suite 1100 East
Washington, D.C. 20004

Jeffrey P. Cunard
Lothar A. Kneifel
Debevoise & Plimpton
555 13th Street, N.W.
Suite 1100E
Washington, D.C. 20004

Iris Struiken-Wijdenbosch
Caribbean Association of National Telecommunication Organizations
#67 Picton Street
Newtown
Port of Spain
Trinidad, W.I.

Pat Philips
First Secretary, Trade Policy
British Embassy
Trade Department
3100 Massachusetts Avenue, N.W.
Washington, D.C. 20008-3600

Michael J. Shortley, III
Frontier
180 South Clinton Avenue
Rochester, NY 14646

Chun-Koo Hahn
Communications Counselor
Embassay of the Republic of Korea
2370 Massachusetts Avenue, N.W.
Washington, D.C. 20008

David Glickman
President
Justice Technology Corporation
One Justice Way
Box 1110
El Segundo, CA 90245

Stephen L. Goodman
Halprin, Temple, Goodman & Sugrue
1100 New York Avenue, N.W.
Suite 650 East
Washington, D.C. 20005

Robert S. Koppel
Vice President
International Regulatory Affairs
15245 Shady Grove Road
Suite 460
Rockville, MD 20850

Alfred M. Mamlet
Steptoe & Johnson
1330 Connecticut Avenue, N.W.
Washington, D.C. 20036

A. Bradley Shingleton
Deutsche Telekom, Inc.
1020 19th Street, N.W.
Suite 850
Washington, D.C. 20036

Dalhi N. Myers
Adam L. Kupetsky
Swidler & Berlin, Chartered
3000 K Street, N.W.
Suite 300
Washington, D.C. 20007

Janet Hernandez
Reid & Priest, L.L.P.
701 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Kelley Boan
North American Representative
Telia AB
2345 Oak Court
P.O. Box 752
Severna Park, MD 21146

Kent Y. Nakamura
Sprint Communications Company, L.P.
1850 M Street, N.W.
11th Floor
Washington, D.C. 20036

Eng. Ardullah S. Al-Suwailem
Kingdom of Saudi Arabia
Ministry of P.T.T.
Deputy Ministry For Finance & Administration
Riyadh (111112)
Saudi Arabia

Erik A. Olbeter
Director, Advanced Telecom and Information
Technology Program
Economic Strategy Institute
1401 H Street, N.W.
Suite 750
Washington, D.C. 20005

Stanley J. Moore
Pacific Bell
5850 West Las Positas Blvd.
Pleasanton, CA 94588

Eng. M. Obied
Chairman of Board
Director General of STE
Syrian Arab Republic
Syrian Telecommunications Establishment
Embassy of the United States of America
Damascus
Syria

Robin Yearwood
Minister of Public Work Utilities &
Transportation
Cassada Gardens
P.O. Box 416
St. John's, Antigua

Kenneth Robinson
Telecom Italia
1133 21st Street, N.W.
Washington, D.C. 20037-0455

Junichiro Miyazaki
Embassy of Japan
2520 Massachusetts Avenue, N.W.
Washington, D.C. 20008

Seung-Sul Woo
Vice President
Strategic Marketing Group
Korea Telecom
211 Sejongro Chongnogu
Seoul
Korea 110-777

I. Rudaka
Ministry of Transport of the Republic of
Latvia
Department of Communications
3 Gogola Street
Riga, LV-1190
Latvia

Tom Bliley
U.S. House of Representatives
Committee on Commerce
Room 2125
Rayburn House Office Building
Washington, D.C. 20515-6115

Terrence P. McGarty
President
The Zephyr Capital Group, Inc.
24 Woodbine Road
Florham Park, NJ 07932

Carol R. Schultz
MCI Telecommunications Corporation
1801 Pennsylvania Avenue, N.W.
Washington, D.C. 20006

David F. Brown
SBC Communications, Inc.
175 E. Houston
Room 1254
San Antonio, TX 78205

Charles. C. Hunter
Hunter & Mow, P.C.
1620 I Street, N.W.
Suite 701
Washington, D.C. 20006

Teresa D. Baer
Latham & Watkins
1001 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Gregory C. Staple
R. Edward Price
Koteen & Naftalin, L.L.P.
1150 Connecticut Avenue, N.W.
Suite 1000
Washington, D.C. 20036

Sethaporn Cusripituck
Deputy Director General
Post and Telegraph Department of Thailand
Bangkok 10210
Thailand

Barbara Frank

Barbara Frank